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DIRECTORATE OF  
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PANAMA - UNITED NATIONS: The government is mounting a major campaign to have the Security Council meet in Panama City.

Foreign Minister Tack told the US ambassador this week that Panama already has the support of 11 of the 15 Council members and he requested US support. The Panamanian ambassador to the UN told US officials that French Foreign Minister Schumann has offered his government's full support. Panama, which now has a temporary seat on the Council, wants the meeting in March when its ambassador will be the Council chairman.

A Council meeting in Panama would not only raise Torrijos' international prestige and satisfy Panama's nationalistic longings but would provide an unparalleled forum to focus world attention on the canal negotiations.

The government seems to believe it will have to use pressure tactics to get a satisfactory treaty and that international diplomatic support and widespread publicity would give it important negotiating leverage. Panama's ambassadors to Brazil, Uruguay, and Peru have recently issued statements publicizing Panama's claim to sovereignty over the Canal Zone in an attempt to mobilize public opinion in these countries. The Panamanian ambassador to the UN admitted that any Council meeting in Panama would be used to get his country's case on the canal before American public opinion.

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NOTES

MEXICO: Security forces in the capital are on special alert this weekend to guard against possible hit-and-run bombings by radical dissidents. Officials believe that the anniversary on 2 October of the 1968 Tlatelolco student massacre may provoke bombings similar to those before President Echeverria's state of the nation address and Independence Day celebrations earlier this month. The possibility that maverick labor leaders would support student protests, however, was lessened during the week when two dissident unions came to terms with the administration and joined government-affiliated unions. These moves are an important success for Echeverria in his efforts to promote labor harmony. Meanwhile, security forces made some progress in their campaign against Lucio Cabanas' guerrilla organization by capturing nine members of his band. Information from the prisoners will facilitate the security forces' search for the elusive Cabanas, whose capture would significantly reduce the effectiveness of Mexico's most troublesome guerrilla movement. [redacted]

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SWEDEN: The Social Democratic Party congress which convenes on 1 October may call for recognition of East Germany. The congress will write the platform for next year's election. Swedish Prime Minister and party chairman Olof Palme will strive for a program aimed at recouping losses the party suffered in 1970 when it failed to sustain a clear-cut majority in parliament. Palme has consistently wooed the left during the interim and can be expected to tailor the new platform accordingly. Party leaders reportedly are split over whether to resolve simply to recognize East Germany without specifying a time or to call for "immediate" recognition. As an election issue, recognition of Pankow probably will have little impact on most Swedish voters, who are smarting from high taxes and inflation. [redacted]

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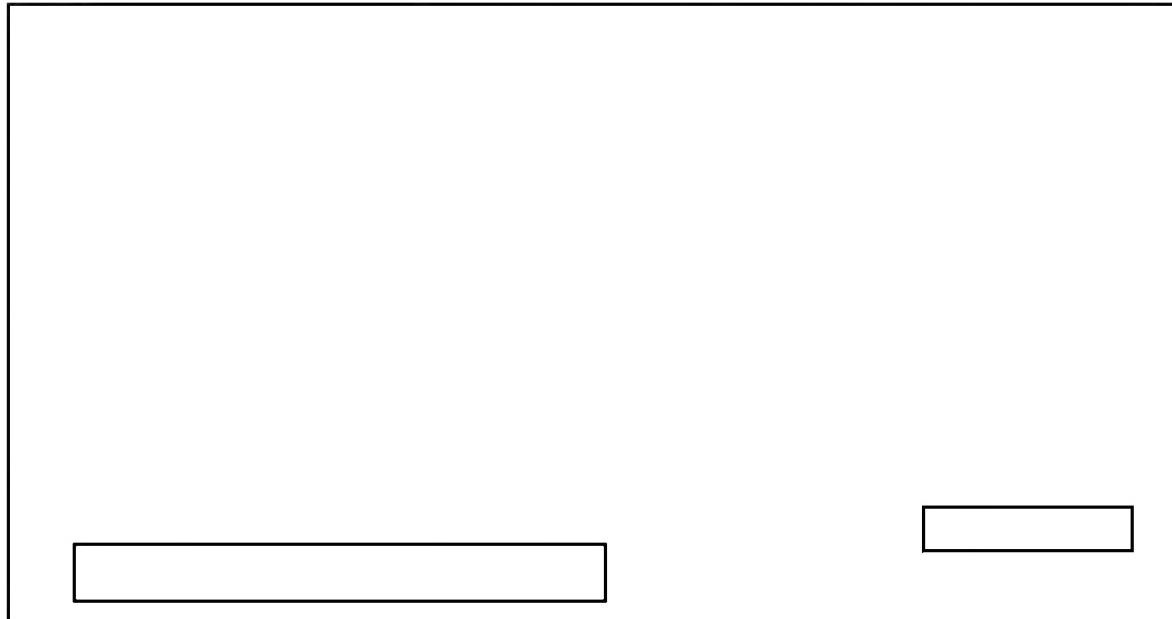
CEMA-IRAQ: Iraq probably will soon be accorded observer status in the Soviet-dominated Council for Mutual Economic Assistance, according to a Soviet Foreign Ministry official. Baghdad has achieved some successes in marketing its oil in the Soviet Union and Eastern Europe recently and undoubtedly hopes that a CEMA arrangement will facilitate an expansion of the market. Moscow has been trying to make CEMA into a more significant economic entity. Iraq would be the first non-Communist country associated with CEMA; in addition to the Warsaw Pact countries, Mongolia and Cuba are full members, and Yugoslavia, North Korea, and North Vietnam are observers.

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INDONESIA: Djakarta has achieved a surplus foreign exchange position for the first time since the beginning of the Suharto regime. The improvement of about \$150 million, mainly the result of increased oil exports and rapid inflows of short-term capital, could well be temporary, however. It is possible that part of the short-term inflows may reflect capital flight from the Philippines which could be reversed quickly. For its part, Djakarta is concerned that the improvement might lull the country's present aid donors into reducing their support.

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NEW ZEALAND: Flooding in the South Island will undoubtedly damage the country's export performance this year. Farmers, still recovering from floods in June, suffered severe losses of crops and livestock as floods again swept the area during the height of the lambing season. An estimated 30 percent of the lamb crop in one of the major sheep farming areas has been lost and the number will probably increase because of cold weather and feed shortages. Sheep farming alone is responsible for more than one third of New Zealand's export earnings.

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URUGUAY: The ban on domestic consumption of exportable beef, a keystone of President Bordaberry's battered economic reform program, has failed so far to divert beef into official export channels. Instead, ranchers have increased cattle smuggling to Brazil, where live cattle prices are nearly 50 percent higher. Extremely high world beef prices have buoyed up export earnings, but producers' incentives to sell cattle through official channels are reduced by export taxes imposed under the stabilization program.

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